Housing Finance Reform: Housing is an enormous sector of our economy. We never go into recession without housing leading us in. And, we never come out without housing recovering. Arguably, part of the reason that our current economic recovery is so tepid is because the housing recovery is very weak. When you consider the construction of new houses, the sales of existing houses, the construction and remodel and renting of apartments, the home improvement industry and so forth, it represents a tremendous amount of employment, economic activity and is fundamental to a standard of living. And, none of it moves without adequate financing. Hardly anyone buys, builds or improves a house or apartment paying cash. Pretty much everyone needs to borrow some money.

The method under which most people borrowed that money during the last 70 years was through the assistance of the "government sponsored enterprises", Fannie Mae and Freddie Mac. And, it worked pretty well for most of those 70 years. But, as we all well know, both enterprises failed rather spectacularly in 2008 and were a major component of the economic crash that year. The reasons for this failure are beyond the scope of this missive, but suffice it to say that the model broke down, the housing market collapsed and the federal government had to rescue them to the tune of $138 billion to date. Taxpayers now own these entities.

Today, roughly 19 out of 20 home mortgages in the United States are made by and guaranteed by the U.S. government through Fannie, Freddie or FHA.

There is a general agreement in Washington that this cannot continue and that these entities must be liquidated. However, there is not agreement on what the proper system should be to replace them.

There are some Republicans who want to replace them with nothing and let the private market handle it. This will not work. The 30 year mortgage will disappear under this option, in part because the FDIC will not allow banks to make and hold such mortgages anymore because of some of the bank failures caused by the mismatch of long term loans against short-term bank deposits. Also, all markets are subject to cycles. If you want to buy a house or sell yours at a time in the cycle when banks decide they don't want to lend money, then you pretty much can't sell your house or buy one until the banks change their minds. This combination of factors will lead to a huge decline in home values, which (because of the enormous size and impact of the housing sector discussed above) will lead to a new and deep recession. Bad idea. Very bad idea.

There are some Democrats who believe that the government should be the only maker of home loans. Furthermore, they want to charge more to borrow money on more expensive homes and subsidize certain ethnic or income groups to obtain very cheap loans that really don't have to be paid back. This is the gateway to socialized housing (to go along with socialized medicine and everything else). Equally very bad idea.

Fortunately, those two extremes (no government involvement and complete government involvement) are beliefs held by a relatively small number of congressional members.

The correct solution, the one that will work, is in the middle. To this end, last week I introduced the Housing Finance Reform Act along with my Democratic cosponsor, Gary Peters of Michigan. This bill will liquidate the failed Fannie and Freddie and replace them with multiple (hopefully 10, 20 or more) privately held and funded "associations" to guarantee mortgages. These associations will act very much like the public utility that sells you electricity or natural gas. They will be highly regulated by a newly created regulator that will be very independent of political influence. They will not be allowed to be in any other business other than guaranteeing mortgages. They cannot be controlled by entities that originate the mortgages. They will be able to purchase a limited, but explicit federal guarantee of the mortgage security, not the association. That federal guarantee is what will allow 30 year fixed-rate mortgages to continue and what will create stability in the market so that mortgages are always available to credit-worthy borrowers. But, the guarantee will be very different than what Fannie and Freddie had. There will be a whole lot of private capital that will have to be lost before any taxpayer money is at risk. As a general rule, 20% down payments will be required. The associations will also hold a lot of capital, which must be lost first. And, the money they pay for the federal guarantee will work like FDIC insurance in that the payment creates a fund to cover losses should one of the associations fail. And, even then we can assess additional money from the associations to fill up the fund should it be depleted by a failure.

OK, this is really technical stuff. I am a geek. I actually wore a real pocket protector in high school so that my colored pencils, mini-slide rule and protractor did not stain my shirt. Anyway, if I haven't lost your attention yet, suffice it to say that this is a bipartisan effort to create a private capital structure with a very well protected and disbursed federal guarantee so that we can have a robust, but sensible housing finance market again to allow housing to recover and prosper over time. For those of you who can't get enough of this, we have provided links to the bill itself, a summary of the bill and *The Wall Street Journal* exclusive coverage of it from last week.

The Wall Street Journal : "Bill Proposes Mortgage Shake-Up"

Text of H.R. 1859, the Housing Finance Reform Act

Summary of H.R. 1859, the Housing Finance Reform Act

As my last missive indicated, we Republicans are at loggerheads with Democrats on the budget and spending and the debt and immigration and energy and a whole host of other issues. My philosophy of politics has long been that even if you and I disagree on 19 out of 20 issues, it means there is one place where we can work together.

This, I believe, is that place. It just happens that the right solution is at the arithmetic median of the political spectrum. It is needed because Fannie and Freddie cannot continue as they are for long. It is important because removing the uncertainty about the future of housing finance will trigger significant economic growth and job creation across the country. And, this bill has the opportunity to actually pass the House AND the Senate AND be signed by the president in order to become law and not just a talking point. I, and my cosponsor, serve on the committee of jurisdiction for this bill (Financial Services Committee), and so this will be a major focus for me in the coming months.

If you agree with what I am doing, I need your help. This stuff is complicated and it is a challenge to explain to my colleagues of either party. If you want to help educate those colleagues through calls and e-mails, contact my office to indicate your willingness.

I am an excited geek. It's not going to be easy, but I think we can do this. And, by doing it, we can improve the economy and preserve the American dream of owning a home of your own.